

16 JUL REC'D

~~SECRET~~

52

1 copy Rec'd.

~~Mr. Tolson~~  
~~Mr. Boardman~~  
~~Mr. Nichols~~  
~~Mr. Belmont~~  
~~Mr. Mohr~~  
~~Mr. Casper~~  
~~Mr. Callahan~~  
~~Mr. Conrad~~  
~~Mr. Felt~~  
~~Mr. Gale~~  
~~Mr. Rosen~~  
~~Mr. Sullivan~~  
~~Mr. Tavel~~  
~~Mr. Trotter~~  
~~Tele. Room~~  
~~Mr. Holloman~~  
~~Miss Gandy~~  
file

QUARTERLY REPORT  
to the  
COUNCIL ON FOREIGN ECONOMIC POLICY

SINO-SOVIET BLOC  
ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS

1 April 1958-30 June 1958

NUMBER 5

PREPARED JOINTLY BY  
THE CENTRAL INTELLIGENCE AGENCY  
AND  
THE DEPARTMENT OF STATE

~~SECRET~~

**WARNING**

**THIS MATERIAL CONTAINS INFORMATION AFFECT-  
ING THE NATIONAL DEFENSE OF THE UNITED STATES  
WITHIN THE MEANING OF THE ESPIONAGE LAWS,  
TITLE 18, U.S.C., SECTIONS 793 AND 794, THE TRANSMIS-  
SION OR REVELATION OF WHICH IN ANY MANNER TO  
AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.**

S-E-C-R-E-T

SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS

1 APRIL - 30 JUNE 1958

Principal Developments

1. The major developments in the economic offensive of the Sino-Soviet Bloc during the quarter 1 April - 30 June 1958 were the delivery of arms and economic aid goods to Indonesia and the unilateral postponement of the Soviet assistance that had been promised to Yugoslavia. Affected by the Soviet action in Yugoslavia were a \$175-million credit for the construction of an aluminum complex and the unutilized portion (amounting to about \$70 million) of a \$110-million line of credit for industrial purposes. Arms shipments to Indonesia from Satellite countries began almost immediately after the signing of the contracts and included aircraft and moderate quantities of small arms and ammunition. During the past 3 months, at least 12 Soviet ships were delivered by the USSR to Indonesia. In addition, rice and textiles were sent under an \$11-million credit from Communist China.

2. Other significant developments included the visit of Nasser to the USSR. During this visit the USSR agreed to consolidate the Syrian and Egyptian economic assistance pacts with the USSR and to ease the repayment terms of the Syrian arms agreements.

3. In Afghanistan the USSR agreed to make available part of its \$100-million line of credit in the form of local currency to provide for local expenses on a Soviet-sponsored project. (Countries receiving Soviet aid heretofore have had to provide for local currency costs from resources other than Soviet credits.) Several Soviet projects in Afghanistan have been held up because of budgetary stringencies, which made local financing difficult.

4. In Latin America, large orders for the purchase of Soviet petroleum were placed by Argentina and Uruguay, and Brazil contracted for the purchase of Polish ships valued at about \$24 million.

S-E-C-R-E-T

S-E-C-R-E-T

Bloc Offers to Countries Involved in Western Defense Arrangements

5. One of the major aims of Bloc diplomacy is to breach the chain of Western defense pacts. Pursuing this goal, the USSR has made offers of trade and assistance to countries associated with Western defense arrangements. For the most part these offers have been rejected. In recent months, however, several countries apparently have found it expedient to consider these proposals more seriously and, in certain instances, to accept them. Even if these offers ultimately are rejected, they benefit Soviet foreign policy by increasing the bargaining power of the country in its negotiations for Western assistance.

Turkey

6. Large-scale Soviet credit offers to Turkey have been reported in connection with recent discussions between the Soviet Ambassador and the Turkish Foreign Minister. Although previous aid offers have been rejected summarily, the Turkish reaction to the latest Soviet overture indicates a willingness to explore the proposals to determine exactly what the Soviets might be prepared to provide.

7. Persistent financial difficulties have influenced the Turkish attitude. Inflationary pressures created by large domestic investment in development schemes, a heavy foreign debt, and a shortage of foreign exchange have contributed to an expansion of trade with the Bloc. The USSR, in particular, is making a strong bid to supply Turkey with goods formerly procured exclusively in the West and recently has concluded an agreement with a private Turkish firm to provide \$2 million worth of construction equipment on credit. About 18 percent of Turkey's trade is now with the Sino-Soviet Bloc.

Iran

8. The USSR has sought persistently to improve relations with Iran since the Shah's visit to Moscow in mid-1956. Although Soviet offers of large-scale economic aid have been rebuffed, the Iranian government has accepted a Soviet credit of \$3.2 million for the construction of a

- 2 -

S-E-C-R-E-T

## S-E-C-R-E-T

sugar plant, and Soviet efforts to expand economic ties have met with some success. Soviet-Iranian agreement has been reached on transit rights, surveys of border rivers, and a 3-year trade accord. Although these agreements provide a framework for closer economic relations, their actual significance depends upon the pace at which the Shah is willing to implement the agreements. Thus far, only dredging at the Caspian port of Pahlavi is proceeding with dispatch (under Swedish supervision). Moscow is continuing to offer Iran additional economic aid which the USSR asserts would be unconditional. These proposals are particularly attractive at this time because of the Shah's concern over the possible disengagement of the US in the Middle East and the growing strength of Arab nationalism on Iran's western flank.

9. An allocation of \$40 million from the US Development Loan Fund for development projects, made during the Shah's recent visit to the US, will bolster Iranian resistance to Soviet overtures.

Iceland

10. Expansion of Iceland's economic relations with the Bloc has been largely a reaction to difficulties encountered in marketing fish and fish products in the West. Commerce with the Bloc has increased and now represents about 30 percent of Iceland's total foreign trade. Iceland has accepted about \$5 million in economic assistance from the Satellites, mainly in the form of short-term loans. A Soviet offer of a \$25-million line of credit in 1957 was not accepted, but the decision was made only after lengthy deliberation and consultation by Iceland with other NATO members. More recent offers currently are being considered by the Iceland Government.

11. Inflationary pressures and inadequate resources for financing development projects are factors behind Iceland's susceptibility to Bloc overtures. The Communist Party, strong in Iceland for many years and now represented in the Government, has contributed to the pressures to accept Bloc economic offers. In turn, the expansion of Iceland's economic relations with the Bloc has enhanced the prestige of the local Communist Party.

S-E-C-R-E-T

S-E-C-R-E-T

Morocco and Tunisia

12. Although Bloc offers of economic assistance have been made to both Morocco and Tunisia -- the latest made to Morocco in December 1957 -- none of these offers has been accepted. In late 1957, when Tunisia was trying to obtain arms from Western sources to build up its forces for internal security purposes, Czechoslovakia offered to supply Tunisia with military equipment. The Tunisian Government eventually rejected this offer when Western countries agreed to ship small arms to Tunisia.

13. In a recent press interview, President Bourguiba announced that Tunisia intended to establish diplomatic relations with the USSR and Communist China. He also criticized the US for not sending enough military and economic aid to Tunisia and stated that Tunisia had a commercial mission in the USSR at that moment. These countries, faced with internal pressures for improvement in living standards, are likely to become more receptive to Bloc offers of assistance if they are unable to obtain help from Western sources in meeting their economic problems.

14. Both Morocco and Tunisia so far have limited their official contacts with Bloc governments to economic relations. Morocco now has trade agreements with 6 Bloc countries and Tunisia with 5 Bloc countries. Moroccan and Tunisian trade with the Bloc is increasing as a result of these agreements, but such increases are not expected to involve a significant proportion of total foreign trade. Economic missions from the USSR, Poland, and Czechoslovakia have been established in Casablanca, and Czechoslovak and Soviet trade missions have been established in Tunis.

S-E-C-R-E-T

**SECRET**

**SECRET**